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ECONOMIC IMPORTANCE OF HONG KONG TO COMMUNIST CHINA

A. Present Economic Benefits to China

1. As a well-established commercial-financial center, Hong Kong greatly facilitates Communist China's trade and financial relations with Free World countries.

2. Hong Kong is by far China's largest single source of convertible currency; in 1966 China received almost \$475 million from its export surplus alone. In addition, China received nontrade earnings, chiefly overseas remittances, from and through Hong Kong estimated at \$90 million. Thus, China's net Free World foreign exchange earnings from and through Hong Kong in 1966 amounted to at least \$565 million.

3. Hong Kong serves as a market for Chinese products -- foodstuffs and textiles in the main -- and provides commercial, financial, and other services for marketing Chinese goods in many other Free World countries (see Table). Of China's total exports to Hong Kong in 1966 of \$485 million, an estimated \$110 million of these were re-exported to other Free World countries. Although China attempts to purchase directly from the countries producing the goods it wants, Hong Kong's services help to fill specialized import requirements through purchases in Free World markets.

a. The free exchange of currency in Hong Kong permits China to convert foreign exchange earnings into desired types of Free World currency.

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5. Finally, Hong Kong provides China with a major point of trading contact with Free World countries, especially those countries with no diplomatic ties to Peking.

B. Loss of Benefits if Hong Kong were Part of China

Many of the benefits that Peking derives from Hong Kong would be lost or greatly diminished if it were a part of Communist China. These losses would include:

1. Foreign exchange earnings would be sharply reduced because deliveries to Hong Kong for local consumption would be paid in domestic currency.

2. The free exchange of Free World currencies would disappear with the loss of British backing.

3. The loss of Hong Kong's unique position as a British-sponsored free port would probably bring a sharp reduction in the use of the commercial and financial facilities in Hong Kong by businessmen of Free World countries.

4. In addition, the present freedom of contact with Free World nationals would largely disappear.

Communist China: Trade with Hong Kong, 1963-65
(in millions of US dollars)

	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>
Exports by China	259	345	407	485
Imports from Hong Kong	12	10	13	12
Export surplus of China	247	335	394	473

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Mr. Adair. I would like to have the General use what time we have to discuss this.

General Porter. This is a very interesting subject, and I get it all the time from the Latin American countries because they have a very active and very compelling interest in what is going on in Cuba.

I find there are more Soviet citizens in Cuba this year at this time than there were at this time last year. There is a relatively sizeable increase. I would have to refresh my memory on the exact report.

As I recall, it is in the order of between 500 and 1,000 more Soviet citizens in Cuba at this time than there was at this time last year. In addition to that, Minister Corrigan was in Puerto Rico last week, was at Roosevelt Roads in connection with the maneuvers going on there, and got a briefing and brought back a very interesting report on the number of Soviet ships that were in Cuban ports last week.

Bob, could you speak to that?

Mr. Corrigan. According to this intelligence briefing last Wednesday, there were reported to be some 40-some Soviet ships and another 20 some Soviet bloc ships for a total of between 60 and 70 Communist ships. Having in mind how much a ship carries, it kind of frightened me.

The point is there is great interest on the part of the USSR here. While Castro is busy stirring up

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1 the pot and we hear that the USSR has an interest
2 in rapprochement or a detente or something like that, I
3 think actions are very indicative here, the fact that
4 great aid is being given to Cuba by the USSR permits
5 Castro to go ahead and take this particular independent role
6 and line. There is no question he is at work.

7 For example, in Panama last fall there were 17 men
8 that went to Cuba from Panama. Seven have come back at the
9 present time. The others have not returned yet. These men
10 have a history of being Communists. I can't assume they are
11 up to much good over that period of time. I think there
12 is a stockpiling going on. If we begin totalling it
13 up we find there is almost 5,000 people throughout Latin
14 America as a whole that have been trained either in Cuba
15 or in what we would call behind the iron or bamboo
16 curtains.

17 How many of these people actually are needed for an insur-
18 gency is difficult to say. It doesn't really take more
19 than a hard corps along with campesinos to give us great
20 difficulties in these countries.

21 Mr. Adair. Thank you, Francis.

22 Chairman Morgan. Mr. Selden.

23 Mr. Selden. Thank you, Mr. Chairman.

24 General, can our intelligence sources make any sort of
25 estimate as to how many people have been trained in Cuba

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Chairman Morgan. Mr. Broomfield.

Mr. Broomfield. General Porter, the statement by Mr. Corrigan regarding the Soviet ships and I believe the other Communist ships totalling nearly 70 in this report that you have received some time ago, a few days ago, what kind of surveillance do we have presently over Cuba?

General Porter. This is a difficult question for me to answer because I am not familiar with all the types of surveillance. Cuba actually is in CINCLANT's area instead of mine. There is daily surveillance over Cuba. We have a good judgment as to the goings and comings of shipping in and out of the ports.

Mr. Broomfield. You do feel it is adequate? We are not letting our guard down there?

General Porter. It is difficult for me to really give you a professional opinion because I am not privy to enough of the program, the surveillance program there, Mr. Congressman.

Mr. Broomfield. Mr. Adair asked you the question also about the missiles and submarines and I don't think you responded to that. Can you give us any information as to any submarines or missiles?

General Porter. I would prefer to supply that for the record. I think I can give you more information than good information on that right now.

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Mr. Broomfield. I am very disturbed on this program for Colombia. I agree with that, I think our military support program for this next fiscal year is very inadequate. As I understand it, the program only calls for about four more helicopters, is that correct?

General Porter. That is correct. I have studies under way now to see whether we are going to be able to get by with this or not.

Mr Broomfield. How do you view the number of bandits that they have working in Colombia? Am I clear that you feel this is getting out of hand and is an extremely serious situation in Colombia?

General Porter. The threat is growing. It isn't a static situation. For example, when I came here last year I had just come back from Colombia and in the

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